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ATTACHMENT 4.19-D (NF)

Page 87

E. The adjusted depreciation is determined by subtracting from the depreciation in Sections 15.010 to 15.030 the amount of depreciation, if any, related to the portion of the nursing facility's replacement cost new disallowed in item C or D.

F. The nursing facility's allowable appraised value is determined by subtracting the amount determined in item E from the amount in item D. If no adjustment to the replacement cost new is required in items C and D, then the nursing facility's allowable appraised value is the appraised value determined in Sections 15.010 to 15.030.

G. A nursing facility which has reduced licensed bed capacity after the preceding January 1, shall be allowed to aggregate the applicable replacement cost new per bed limits based on the number of beds licensed prior to the reduction; and establish capacity days for each rate year following the licensure reduction based on the number of beds licensed on the previous April 4. The notification must include a copy of the delicensure request that has been submitted to the Commissioner of health.

SECTION 15.050 Allowable debt. For purposes of determining the property-related payment rate, the Department shall allow or disallow debt according to items A to F.

A. Debt shall be limited as follows:

(1) Debt incurred for the purchase of land directly used for resident care and the purchase or construction of nursing facility buildings, attached fixtures, or land improvements or the capitalized replacement or capitalized repair of existing buildings, attached fixtures, or land improvements shall be allowed. Debt incurred for any other purpose shall not be allowed.

(2) Working capital debt shall not be allowed.

(3) An increase in the amount of a debt as a result of refinancing of capital assets which occurs after May 22, 1983, shall not be allowed except to the extent that the increase in debt is the result of refinancing costs such as points, loan origination fees, or title searches.

(4) An increase in the amount of total outstanding debt incurred after May 22, 1983, as a result of a change in ownership or reorganization of provider entities, shall not be allowed and the previous owner's allowable debt as of May 22, 1983, shall be allowed under item B.

(5) Any portion of the total allowable debt exceeding the appraised value as determined in Section 15.040 shall not be allowed.

(6) Any portion of a debt of which the proceeds exceed the historical cost of the capital asset acquired shall not be allowed.

(7) Debt associated with the appraised value, is subtracted from each facility's appraised value and the result is multiplied by 5.66%. The facility's interest expense, as limited by floating and absolute maximum rates is added.

B. The nursing facility shall apportion debts incurred before October 1, 1984, among land and buildings, attached fixtures, land improvements, depreciable equipment and working capital by direct identification. If direct identification of any part of the debt is not possible, that portion of the debt which cannot be directly identified shall be apportioned to each component, except working capital debt, based on the ratio of the historical cost of the component to the total historical cost of all components. The portion of debt assigned to land and buildings, attached fixtures, and land improvements is allowable debt.

A hospital-attached nursing facility that has debts that are not directly identifiable to the hospital or the nursing facility shall allocate the portion of allowable debt computed according to Section 15.050, and allowable interest expense computed according to Section 15.070 assigned to land and buildings, attached fixtures, and land improvements using the Medicare stepdown method described in Section 15.010.

C. For debts incurred after September 30, 1984, the nursing facility shall directly identify the proceeds of the debt associated with specific land and buildings, attached fixtures, and land improvements, and keep records that separate such debt proceeds from all other debt. Only the debt identified with specific land and buildings, attached fixtures, and land improvements shall be allowed.

D. For reporting years ending on or after September 30, 1984, the total amount of allowable debt shall be the sum of all allowable debts at the beginning of the reporting year plus all allowable debts at the end of the reporting year divided by two. Nursing facilities which have a debt with a zero balance at the beginning or end of the reporting year must use a monthly average for the reporting year.

E. Except as provided in item F, debt incurred as a result of loans between related organizations must not be allowed.

F. Debt meeting the conditions in Section 15.132 is allowable.

SECTION 15.060 Limitations on interest rates. The Department shall limit interest rates according to items A to C.

STATE: MINNESOTA

Effective: July 1, 2001

TN: 01-09

Approved:

Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 89

A. Except as provided in item B, the effective interest rate of each allowable debt, including points, financing charges, and amortization bond premiums or discounts, entered into after September 30, 1984, is limited to the lesser of:

(1) the effective interest rate on the debt; or

(2) 16 percent.

B. Variable or adjustable rates for allowable debt are allowed subject to item A. For each allowable debt with a variable or adjustable rate, the effective interest rate must be computed by dividing the interest expense for the reporting year by the average allowable debt computed under Section 15.050, item D.

C. For rate years beginning on July 1, 1985, and for rate years beginning after June 30, 1987, the effective interest rate for debts incurred before October 1, 1984, is allowed subject to item A.

SECTION 15.070 Allowable interest expense. The Department shall allow or disallow interest expense including points, finance charges, and amortization bond premiums or discounts under items A to G.

A. Interest expense is allowed only on the debt which is allowed under Section 15.050 and within the interest rate limits in Section 15.060.

B. A nonprofit nursing facility shall use its restricted funds to purchase or replace capital assets to the extent of the cost of those capital assets before it borrows funds for the purchase or replacement of those capital assets. For purposes of this item and Section 4.020, a restricted fund is a fund for which use is restricted to the purchase or replacement of capital assets by the donor or by the nonprofit nursing facility's board.

C. Construction period interest expense must be capitalized as a part of the cost of the building. The period of construction extends to the earlier of either the first day a resident is admitted to the nursing facility, or the date the nursing facility is certified to receive medical assistance recipients.

D. Interest expense for allowable debts entered into after May 22, 1983, is allowed for the portion of the debt which together with all outstanding allowable debt does not exceed 100 percent of the most recent allowable appraised value as determined in Sections 15.010 to 15.040. For a rate year beginning on or after July 1, 1989, the interest expense that results from a refinancing of a nursing facility's demand call loan, when the loan that must be refinanced was incurred before May 22, 1983, is an allowable interest expense.

STATE: MINNESOTA

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TN: 01-09

Approved:

Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 90

E. Increases in interest expense after May 22, 1983, which are the result of changes in ownership or reorganization of provider entities, are not allowable.

F. Except as provided in item G, increases in total interest expense which are the result of refinancing of debt after May 22, 1983, are not allowed. The total interest expense must be computed as the sum of the annual interest expense over the remaining term of the debt refinanced.

G. Increases in total interest expense which result from refinancing a balloon payment on allowable debt after May 22, 1983, shall be allowed according to subitems (1) to (3):

(1) The interest rate on the refinanced debt shall be limited under Section 15.060, item A.

(2) The refinanced debt shall not exceed the balloon payment.

(3) The term of the refinanced debt must not exceed the term of the original debt computed as though the balloon payment did not exist.

SECTION 15.080 Building capital allowance for owner-operated nursing facilities or nursing facilities with capital leases. Except as provided in Section 15.140, for the rate years beginning after June 30, 1985, the building capital allowance for owner-operated nursing facilities or nursing facilities with capital leases must be computed as follows:

A. The rental factor is 5.33 percent. For the rate year beginning July 1, 1988 the rental factor will be increased by 6.2% rounded to the nearest 100th percent or 5.66 percent for the purpose of reimbursing nursing facilities for soft costs and entrepreneurial profits not included in the cost valuation services used by the state's contracted appraisers. For rate years beginning on or after July 1, 1989, the rental factor is the amount determined for the rate year beginning July 1, 1988.

B. The difference between the nursing facility's allowable appraised value determined under Sections 15.010 to 15.040 and the allowable debt determined in Section 15.050 is multiplied by the rental factor.

C. The amount determined in item B must be added to the total allowable interest expense determined under Sections 15.060 and 15.070.

D. Except as in item E, the amount determined in item C must be divided by 95 percent of capacity days.

E. If the average length of stay in the skilled level of care within a nursing facility is 180 days or less, the nursing facility shall divide the amount in item C by the greater of resident days or 80 percent of capacity days but in no event shall the divisor exceed 95 percent of capacity days.

For purposes of this item, the nursing facility shall compute its average length of stay for the skilled level of care by dividing the nursing facility's skilled resident days for the reporting year by the nursing facility's total skilled level of care discharges for that reporting year.

F. If an operating lease provides that the lessee's rent is adjusted to recognize improvements made by the lessor and related debt, the costs for capital improvements and related debt are allowed in the computation of the lessee's building capital allowance, provided that reimbursement for these costs under an operating lease do not exceed the rate otherwise paid.

SECTION 15.090 Building capital allowance for nursing facilities with operating leases. Except as provided in Section 15.140, for rate years beginning after June 30, 1985, the building capital allowance for nursing facilities with operating lease costs incurred for buildings must be paid as determined by items A to C.

A. The allowable appraised value of the nursing facility must be established according to Sections 15.010 to 15.040.

B. The allowable interest expense determined under Sections 15.060 and 15.070 and the allowable debt determined under Section 15.050 for the leased nursing facility must be considered zero.

C. Except as in item D, the building capital allowance must be the lesser of the operating lease expense divided by 95 percent of capacity days, or the allowable appraised value multiplied by the rental factor and then divided by 95 percent of capacity days.

D. A nursing facility with an average length of stay of 180 days or less shall use the divisor determined in Section 15.080, item E, instead of 95 percent of capacity days.

SECTION 15.100 Equipment allowance. For rate years beginning after June 30, 1985, the equipment allowance must be computed according to items A to E.

A. The historical cost of depreciable equipment for nursing facilities which do not have costs for operating leases for depreciable equipment in excess of \$10,000 during the reporting year ending September 30, 1984, is determined under subitems (1) and (2):

(1) The total historical cost of depreciable equipment reported on the nursing facility's audited financial statement for the reporting year ending September 30, 1984, must be multiplied by 70 percent. The product is the historical cost of depreciable equipment.

(2) The nursing facility may submit an analysis which classifies the historical cost of each item of depreciable equipment reported on September 30, 1984. The analysis must include an itemized description of each piece of depreciable equipment and its historical cost. The sum of the historical cost of each piece of equipment is the total historical cost of depreciable equipment for that nursing facility. For purposes of this item, a hospital-attached nursing facility shall use the allocation method in Section 15.010 to stepdown the historical cost of depreciable equipment.

B. The historical cost per bed of depreciable equipment for each nursing facility must be computed by dividing the total historical cost of depreciable equipment determined in item A by the nursing facility's total number of licensed beds on September 30, 1984.

C. All nursing facilities must be grouped in one of the following:

- (1) nursing facilities with total licensed beds of less than 61 beds;
- (2) nursing facilities with total licensed beds of more than 60 beds and less than 101 beds; or
- (3) nursing facilities with more than 100 total licensed beds.

D. Within each group determined in item C, the historical cost per bed for each nursing facility determined in item B must be ranked and the median historical cost per bed established.

E. The median historical cost per bed for each group in item C as determined in item D must be increased by ten percent. For rate years beginning after June 30, 1986, this amount shall be adjusted annually by the percentage change indicated by the urban consumer price index for Minneapolis-Saint Paul, as published by the Bureau of Labor Statistics, new series index (1967=100) for the two previous Decembers.

F. The equipment allowance for each group in item C shall be the amount computed in item E multiplied by 15 percent and divided by 350.

G. For the rate year beginning July 1, 1990, the Commissioner shall increase the nursing facility's equipment allowance established in items A to F by \$.10 per resident day.

H. For the rate period beginning October 1, 1992, the equipment allowance for each nursing facility shall be increased by 28 percent. For rate years beginning after June 30, 1993, the allowance must be adjusted annually for inflation by the index in E.

SECTION 15.110 Capacity days. The number of capacity days is determined under items A to C.

A. The number of capacity days is determined by multiplying the number of licensed beds in the nursing facility by the number of days in the nursing facility's reporting period.

B. Except as in item C, nursing facilities shall increase the number of capacity days by multiplying the number of licensed single bedrooms by 0.5 and by the number of days in the nursing facility's reporting period. This adjustment has the effect of assigning a greater proportion of property costs to single bed rooms.

C. The Department shall waive the requirements of item B if a nursing facility agrees in writing to subitems (1) to (3).

(1) The nursing facility shall agree not to request a private room payment in Section 17.030 for any of its medical assistance residents in licensed single bedrooms.

(2) The nursing facility shall agree not to use the single bedroom replacement cost new limit for any of its licensed single bedrooms in the computation of the allowable appraised value in Section 15.040.

(3) The nursing facility shall agree not to charge any private paying resident in a single bedroom a payment rate that exceeds the amount calculated under clauses (a) to (c).

(a) The nursing facility's average total payment rate shall be determined by multiplying the total payment rate for each case mix resident class by the number of resident days for that class in the nursing facility's reporting year and dividing the sum of the resident class amounts by the total number of resident days in the nursing facility's reporting year.

(b) The nursing facility's maximum single bedroom adjustment must be determined by multiplying its average total payment rate calculated under clause (a) by ten percent.

(c) The nursing facility's single bedroom adjustment which must not exceed the amount computed in clause (b) must be added to each total payment rate established in Section 17.010 to determine the nursing facility's single bedroom payment rates.

SECTION 15.120 Capitalization. For rate years after June 30, 1985, the cost of purchasing or repairing capital assets shall be capitalized under items A to D.

A. The cost of purchasing a capital asset listed in the depreciation guidelines must be capitalized. The cost of purchasing any other capital asset not included in the depreciation guidelines must be capitalized if the asset has a useful life of more than two years and costs more than \$500.

B. The nursing facility may consider as an expense a repair that costs \$500 or less. Repairs that are considered as an expense must be classified in the plant operation and maintenance cost category. If the cost of a repair to a capital asset is \$500 or more, and the estimated useful life of the capital asset is extended beyond its original estimated useful life by at least two years, or if the productivity of the capital asset is increased significantly over its original productivity, then the cost of the repair must be capitalized.

C. The property-related expenditures related to capital assets such as lease or depreciation, interest, and real estate taxes which are used by central, affiliated, or corporate offices must be classified in the nursing facility's general and administrative cost category.

D. Construction period interest expense, feasibility studies, and other costs related to the construction period must be capitalized.

SECTION 15.130 Determination of the property-related payment rate. The Department shall determine the property-related payment rate according to items A to G.

A. Except as provided in Section 15.140, the building capital allowance of each nursing home shall be added to the equipment allowance.

B. For rate years beginning after June 30, 1986, the historical property-related cost per diem shall be the property-related payment rate established for the previous rate year unless the nursing facility's capacity days change. If the nursing facility's capacity days change from one reporting year to the next for any reason including a change in the number of licensed nursing facility beds, a change in the election for computing capacity days as provided in Section 15.110, or a change in the number of days in the reporting year, the historical property related per diem must be recalculated using the capacity days for the reporting year in which the change occurred.

C. For rate years beginning after June 30, 1985, the property-related payment rate shall be the lesser of the amount computed in item A or the historical property-related per diem in item B increased by six percent for each rate year beginning July 1, 1985 through July 1, 1989, except as provided in items D to G.

D. A nursing facility whose allowable historical property-related per diem determined in item B is less than or equal to \$2.25 shall receive a property related payment rate equal to the greater of \$2.25 or its allowable historical property-related per diem increased by six percent for each rate year beginning July 1, 1985 through July 1, 1989, except that the property-related payment rate shall not exceed the amount determined in item A.

E. A nursing facility whose allowable historical property-related per diem determined in item B is greater than the amount determined in item A shall receive a property-related payment rate equal to its allowable historical property-related per diem.

F. In the event of a change of ownership or reorganization of the provider entity occurring after June 30, 1985, the nursing facility's property-related payment rate must be the lesser of the property-related payment rate in effect at the time of sale or reorganization or the amount determined in item A. Changes in the property-related payment rate as a result of this item shall be effective on the date of the sale or reorganization of the provider entity. For the purposes of this subsection, the following types of transactions shall not be considered a sale or reorganization of a provider entity:

- (1) The sale or transfer of a nursing facility upon death of an owner.
- (2) The sale or transfer of a nursing facility due to serious illness or disability of an owner as defined under the social security act.
- (3) The sale or transfer of the nursing facility upon retirement of an owner at 62 years of age or older.
- (4) Any transaction in which a partner, owner, or shareholder acquires an interest or share of another partner, owner, or shareholder in a nursing facility business provided the acquiring partner, owner, or share has less than 50 percent ownership after the acquisition.
- (5) A sale and leaseback to the same licensee which does not constitute a change in facility license.
- (6) A transfer of an interest to a trust.
- (7) Gifts or other transfers for no consideration.
- (8) A merger of two or more related organizations.
- (9) A transfer of interest in a facility held in receivership.

STATE: MINNESOTA

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Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 96

(10) A change in the legal form of doing business other than a publicly held organization which becomes privately held or vice versa.

(11) The addition of a new partner, owner, or shareholder who owns less than 20 percent of the nursing facility or the issuance of stock.

(12) An involuntary transfer including foreclosure, bankruptcy, or assignment for the benefit of creditors.

G. The property-related payment rate for a nursing facility which qualifies for the special reappraisal in Section 15.030, item A shall be determined according to subitems (1) to (2).

(1) If the amount computed according to item A using the reappraised value is equal to or less than the property-related payment rate in effect prior to the reappraisal, the property-related payment rate in effect prior to the reappraisal shall not be adjusted.

(2) If the amount computed according to item A using the reappraised value is greater than the property-related payment rate in effect prior to the reappraisal, the property-related payment in effect prior to the reappraisal shall be added to the difference between the amount computed according to item A using the reappraised value and the amount value prior to the reappraisal. This sum must not exceed the amount computed in item A using the reappraised value. If the difference between the amount computed according to item A using the reappraised value and the amount computed according to item A using the most recent appraised value prior to the reappraisal is equal or less than zero, the difference shall be considered zero.

SECTION 15.132 Special property-related payment provisions for certain leased nursing facilities.

A. A nursing facility leased prior to January 1, 1986, and currently subject to adverse licensure action by the Minnesota Department of Health and whose ownership changes prior to July 1, 1990, shall be allowed a property payment rate equal to the lesser of its current lease obligation divided by its capacity days as outlined in Section 15.110, or the frozen property payment rate in effect for the rate year beginning July 1, 1989. For rate years beginning on or after July 1, 1991, the property related payment rate shall be its rental rate as computed using the previous owner's allowable principal and interest expense as allowed by the Minnesota Department of Human Services prior to that prior owner's sale and lease-back transaction of

STATE: MINNESOTA

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TN: 01-09

Approved:

Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 97

December 1985.

B. Notwithstanding other provisions in this attachment, a nursing facility licensed for 122 beds on January 1, 1998, and located in Columbia Heights has its property-related payment rate set under this section. The Department shall make a rate adjustment by adding \$2.41 to the facility's July 1, 1997 property-related payment rate (which is effective for rate years beginning on or after July 1, 1998). The adjustment remains in effect so long as the facility's rates are set under this section. If the facility participates in the contractual alternative payment rate system of Section 21.000, the adjustment in this item is included in the facility's contract payment rate. If historical rates or property costs recognized under this section become the basis for future medical assistance payments to the facility under a managed care, capitation or other alternative payment system, the adjustment of this item will be included in the computation of the facility's payments.

SECTION 15.133 Special property-related payment provisions for recently constructed nursing facilities. For the rate years beginning on or after July 1, 1990 nursing facilities that on or after January 1, 1976, but prior to January 1, 1987, were newly licensed after new construction, or increased their licensed beds by a minimum of 35 percent through new construction, and whose building capital allowance is less than their allowable annual principal and interest on allowable debt prior to the application of the replacement cost new per bed limit and whose remaining weighted average debt amortization schedule as of January 1, 1988, exceeded 15 years, must receive a property related payment rate equal to the greater of their rental per diem or their annual allowable principal and allowable interest without application of the replacement cost new per bed limit divided by their capacity days from the preceding reporting year, plus their equipment allowance.

A nursing facility that is eligible for a property related payment rate under this section and whose property payment rate in a subsequent year is its rental per diem must continue to have its property related payment rates established for all future years based on the rental reimbursement formula. The Commissioner may require the nursing facility to apply for refinancing as a condition of receiving special rate treatment under this section. If a nursing facility is eligible for a property related payment rate under this section, and the nursing facility's debt is refinanced after October 1, 1988, the provisions of paragraphs (1) to (7) also apply to the property related payment rate for rate years beginning on or after July 1, 1990.

(1) A nursing facility's refinancing must not include debts with balloon payments.

STATE: MINNESOTA

Effective: July 1, 2001

TN: 01-09

Approved:

Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 98

(2) If the issuance costs, including issuance costs on the debt refinanced, are financed as part of the refinancing, the historical cost of capital asset limit includes issuance costs that do not exceed seven percent of the debt refinanced, plus related issuance costs. For purposes of this section, issuance costs means the fees charged by the underwriter, issuer, attorneys, bond raters, appraisers, and trustees, and includes the cost of printing, title insurance, registration tax, and a feasibility study for the refinancing of a nursing facility's debt. Issuance costs do not include bond premiums or discounts when bonds are sold at other than their par value, points, or a bond reserve fund. To the extent otherwise allowed under this paragraph, the straight line amortization of the refinancing costs is not an allowable cost.

(3) The annual principal and interest expense payments and any required annual municipal fees on the nursing facility's refinancing replace those of the refinanced debt and, together with annual principal and interest payments on other allowable debts, are allowable costs subject to the limitation in subitem (2), if any.

(4) If the nursing facility's refinancing includes zero coupon bonds, the Commissioner shall establish a monthly debt service payment schedule based on an annuity that will produce an amount equal to the zero coupon bonds at maturity. The term and interest rate is the term and interest rate of the zero coupon bonds. Any refinancing to repay the zero coupon bonds is not an allowable cost.

(5) The annual amount of the annuity payments is added to the nursing facility's allowable annual principal and interest expense payment computed in subitem (3).

(6) The property related payment rate is equal to the amount in subitem (5) divided by the nursing facility's capacity days as determined in Section 15.130, for the preceding reporting year plus an equipment allowance.

(7) Except as provided in this section, the previously outlined methodology for the calculation of property payment rates applies.

SECTION 15.136 Property payment rates for rate years beginning on or after July 1, 1990. For purposes of property-related reimbursement under this section, nursing facilities will be grouped according to the type of property related payment rate the Commissioner of Human Services for the rate year beginning July 1, 1989. A nursing facility whose property rate was determined under full rental shall be considered group A. A facility whose property payment rate was determined under phase down to rental reimbursement shall be considered group B. A facility whose rate was determined under the phase up provisions will be

STATE: MINNESOTA

Effective: July 1, 2001

TN: 01-09

Approved:

Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 99

considered group C.

A. For the rate year beginning July 1, 1990, a group A facility will continue to have its property-related payment rate determined in accordance with the provisions of Section 15.080.

B. For the rate year beginning July 1, 1990, a group B facility will receive a payment related rate equal to the greater of:

(1) 87% of the property related payment rate in effect on July 1, 1989; or

(2) the rental per diem calculated in accordance with the provisions of Section 15.080 and this section; or

(3) the sum of 100% of the nursing facilities allowable principal and interest expense; plus its equipment allowance multiplied by the resident days for the reporting year ending September 30, 1989, divided by the nursing facilities capacity days.

C. For the rate year beginning July 1, 1990, a group C facility will have its property related payment rate calculated under the provisions of Section 15.130 item C and this section, except that its property related payment rate cannot exceed the lesser of its property related payment rate established for the rate year beginning July 1, 1989, multiplied by 116% or the rental per diem determined effective July 1, 1990.

D. The property related payment rate for a nursing facility that qualifies for a special reappraisal will have the applicable property related payment rate as calculated above and as adjusted in accordance with the provisions of Section 15.030.

E. Except as provided in Section 15.13, item F, and Section 15.132, a nursing facility that has a change of ownership or a reorganization of provider entity is subject to the provisions of Section 15.130, item F.

F. Except as provided in Section 15.133, a nursing facility will have its property related payment rate calculated according to items A to E. Those nursing facilities whose property related payment rates are calculated under the provisions of Section 15.133 will receive a property related payment rate equal to the greater of the rate calculated under Section 15.133 or that rate applicable under items A to E.

SECTION 15.1370 Hold-harmless property-related rates.

A. Terms used in Sections 15.1370 to 15.1378 shall be as defined in the plan. Capital assets for purposes of Sections 15.1370 to 15.1378 only means a nursing facility's buildings, attached fixtures, land improvements, leasehold improvements, and all additions to or replacements of those assets used directly for resident care.

B. Except as provided in this section, for rate periods beginning on October 1, 1992, and for rate years beginning after June 30, 1993, the property-related rate for a nursing facility shall be the greater of \$4 or the property-related payment rate in effect on September 30, 1992. In addition, the incremental increase or decrease in the nursing facility's rental rate will be determined under this plan. An incremental decrease with an effective date after June 30, 1993, must reduce the nursing facility's property related payment rate.

C. Notwithstanding Section 15.130, item F, a nursing facility that has a sale permitted under Section 15.1371 after June 30, 1992, shall receive the property-related payment rate in effect at the time of the sale or reorganization. For rate periods beginning after October 1, 1992, a nursing facility shall receive, in addition to its property-related payment rate in effect at the time of the sale, the incremental increase allowed under Section 15.1371. For rate years beginning after June 30, 1993, a nursing facility shall receive, in addition to its property-related payment rate in effect at the time of the sale, the incremental increase or decrease allowed under Section 15.1371.

D. For rate years beginning after June 30, 1993, the property-related rate for a nursing facility licensed after July 1, 1989 that was sold during the cost reporting year ending September 30, 1991 (after relocating its beds from a separate nursing home to a building formerly used as a hospital) is its property-related rate before the sale plus:

(1) the incremental increase effective October 1, 1992 of 29 cents per day; and

(2) any incremental increases after October 1, 1992 calculated by using its rental rate, recognizing the current appraised value of the facility at the new location, and including as allowable debt otherwise allowable debt incurred to remodel the facility in the new location before relocating its beds.

STATE: MINNESOTA

ATTACHMENT 4.19-D (NF)

Effective: July 1, 2001

Page 101

TN: 01-09

Approved:

Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

Section 15.1371 Limitations on sales of nursing facilities.

A. For rate periods beginning on October 1, 1992, and for rate years beginning after June 30, 1993, a nursing facility's property-related payment rate as established under Section 15.1370 shall be adjusted by either item B or C for the sale of the nursing facility, including sales occurring after June 30, 1992, as provided in this Section.

B. If the nursing facility's property-related payment rate under Section 15.1370 prior to sale is greater than the nursing facility's rental rate under this plan prior to sale, the nursing facility's property-related payment rate after sale shall be the greater of its property-related payment rate under Section 15.1370 prior to sale or its rental rate under this plan calculated after sale.

C. If the nursing facility's property-related payment rate under Section 15.1370 prior to sale is equal to or less than the nursing facility's rental rate under this plan prior to sale, the nursing facility's property-related payment rate after sale shall be the nursing facility's property-related payment rate under Section 15.1370 plus the difference between its rental rate calculated under this plan prior to sale and its rental rate calculated under this plan calculated after sale.

D. For purposes of this section, "sale" means the purchase of a nursing facility's capital assets with cash or debt. The term sale does not include a stock purchase of a nursing facility or any of the following transactions:

(1) a sale and leaseback to the same licensee that does not constitute a change in facility license;

(2) a transfer of an interest to a trust;

(3) gifts or other transfers for no consideration;

(4) a merger of two or more related organizations;

(5) a change in the legal form of doing business, other than a publicly held organization that becomes privately held or vice versa;

(6) the addition of a new partner, owner, or shareholder who owns less than 20 percent of the nursing home or the issuance of stock; and

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TN: 01-09

Approved:

Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 102

(7) a sale, merger, reorganization, or any other transfer of interest between related organizations other than those permitted in this section.

E. For purposes of this item, "sale" includes the sale or transfer of a nursing facility to a close relative as defined in Section 1.030, upon the death of an owner, due to serious illness or disability, as defined under the Social Security Act, under 42 U.S.C. §423(d)(1)(A), or upon retirement of an owner from the business of owning or operating a nursing home at 62 years of age or older. For sales to a close relative allowed under this item otherwise nonallowable debt resulting from seller financing of all or a portion of the debt resulting from the sale shall be allowed and shall not be subject to Section 15.050, item E, provided that in addition to existing requirements for allowance of debt and interest, the debt is subject to repayment through annual principal payments and the interest rate on the related organization debt does not exceed three percentage points above the posted yield for standard conventional fixed rate mortgages of the Federal Home Loan Mortgage Corporation for delivery in 60 days in effect on the day of sale. If at any time the seller forgives the related organization debt allowed under this item for other than equal amount of payment on that debt, then the buyer shall pay to the State the total revenue received by the nursing facility after the sale attributable to the amount of allowable debt which has been forgiven. Any assignment, sale, or transfer of the debt instrument entered into by the close relatives, either directly or indirectly, which grants to the close relative buyer the rights to receive all or a portion of the payments under the debt instrument shall, effective on the date of the transfer, result in the prospective reduction in the corresponding portion of the allowable debt and interest expense. Upon the death of the close relative seller, any remaining balance of the close relative debt must be refinanced and such refinancing shall be subject to the provisions of Section 15.070, item G. This paragraph shall not apply to sales occurring on or after June 30, 1997.

F. For purposes of this section, "effective date of sale" means the later of either the date on which legal title to the capital assets is transferred or the date on which closing for the sale occurred.

G. The effective day for the property-related payment rate determined under this section shall be the first day of the month following the month in which the effective date of sale occurs or October 1, 1992, whichever is later.

H. Notwithstanding Section 15.050, item A, subitems (3) and (4), and Section 15.050, items E and F, the Commissioner shall limit the total allowable debt and related interest for sales occurring after June 30, 1992, to the sum of subitems (1) to (3):

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ATTACHMENT 4.19-D (NF)

Page 103

(1) the historical cost of capital assets, as of the nursing facility's most recent previous effective date of sale or, if there has been no previous sale, the nursing facility's initial historical cost of constructing capital assets;

(2) the average annual capital asset additions after deduction for capital asset deletions, not including depreciations; and

(3) one-half of the allowed inflation on the nursing facility's capital assets. The Commissioner shall compute the allowed inflation as described in item H.

I. For purposes of computing the amount of allowed inflation, the Commissioner must apply the following principles:

(1) the lesser of the Consumer Price Index for all urban consumers or the Dodge Construction Systems Costs for Nursing Homes for any time periods during which both are available must be used. If the Dodge Construction Systems Costs for Nursing Homes becomes unavailable, the Commissioner shall substitute the index in Section 15.040, item A, subitem (4), or such other index as the secretary of the health care financing administration may designate;

(2) the amount of allowed inflation to be applied to the capital assets in item G subitems (1) and (2), must be computed separately;

(3) the amount of allowed inflation must be determined on an annual basis, prorated on a monthly basis for partial years and if the initial month of use is not determinable for a capital asset, then one-half of that calendar year shall be used for purposes of prorating;

(4) the amount of allowed inflation to be applied to the capital assets in item G, subitems (1) and (2), must not exceed 300 percent of the total capital assets in any one of those clauses; and

(5) the allowed inflation must be computed starting with the month following the nursing facility's most recent previous effective date of sale or, if there has been no previous sale, the month following the date of the nursing facility's initial occupancy, and ending with the month preceding the effective date of sale.

J. If the historical cost of a capital asset is not readily available for the date of the nursing facility's most recent previous sale or if there has been no previous sale for the date of the nursing facility's initial occupancy, then the Commissioner shall limit the total allowable

STATE: MINNESOTA

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TN: 01-09

Approved:

Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 104

debt and related interest after sale to the extent recognized by the Medicare intermediary after the sale. For a nursing facility that has no historical capital asset cost data available and does not have allowable debt and interest calculated by the Medicare intermediary, the Commissioner shall use the historical cost of capital asset data from the point in time for which capital asset data is recorded in the nursing facility's audited financial statements.

K. The limitations in this subdivision apply only to debt resulting from a sale of a nursing facility occurring after June 30, 1992, including debt assumed by the purchaser of the nursing facility.

SECTION 15.1372 Capital repair and replacement cost reporting and rate calculation.

For rate years beginning after June 30, 1993, a nursing facility's capital repair and replacement payment rate shall be established annually as provided in items A to E.

A. Notwithstanding Section 15.120, the costs of any of the following items, not included in the equity incentive computation under Section 15.1373 or reported as a capital asset addition under Section 15.375, item B, including cash payment for equity investment and principal and interest expense for debt financing, must be reported in the capital repair and replacement cost category when the cost of the item exceeds \$500:

- (1) wall coverings;
- (2) paint;
- (3) floor coverings;
- (4) window coverings;
- (5) roof repair; and
- (6) window repair or replacement

B. Notwithstanding Section 15.120, the repair or replacement of a capital asset not included in the equity incentive computations under Section 15.1373 or reported as a capital asset addition under Section 15.1375, item B, must be reported in the capital repair and replacement cost category when the cost of the item exceeds \$500, or in the plant operations and maintenance cost category when the cost of the item is equal to or less than \$500.

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ATTACHMENT 4.19-D (NF)

Page 105

C. To compute the capital repair and replacement payment rate, the allowable annual repair and replacement costs for the reporting year must be divided by actual resident days for the reporting year. The annual allowable capital repair and replacement costs shall not exceed \$150 per licensed bed. The excess of the allowed capital repair and replacement costs over the capital repair and replacement limit shall be a cost carryover to succeeding cost reporting periods, except that sale of a facility, under Section 15.1371, shall terminate the carryover of all costs except those incurred in the most recent cost reporting year. The termination of the carryover shall have effect on the capital repair and replacement rate on the same date as provided in Section 15.1371, item F, for the sale. For rate years beginning after June 30, 1994, the capital repair and replacement limit shall be subject to the index provided in Section 15.040, item A, subitem (4). For purposes of this section, the number of licensed beds shall be the number used to calculate the nursing facility's capacity days. The capital repair and replacement rate must be added to the nursing facility's total payment rate.

D. Capital repair and replacement costs under this Section shall not be counted as either care-related or other operating costs, nor subject to care-related or other operating limits.

E. If costs otherwise allowable under this section are incurred as the result of a project approved under the moratorium exception process or in connection with an addition to or replacement of buildings, attached fixtures, or land improvements for which the total historical cost of these assets exceeds the lesser of \$150,000 or ten percent of the nursing facility's appraised value, these costs must be claimed under Sections 15.1373 or 15.1374 as appropriate.

SECTION 15.1373 Major additions and replacements; equity incentive. For rate years beginning after June 30, 1993, if a nursing facility acquires capital assets in connection with a project approved under the moratorium exception process or in connection with an addition to or replacement of buildings, attached fixtures, or land improvements for which the total historical cost of those capital asset additions exceeds the lesser of \$150,000 or ten percent of the most recent appraised value, the nursing facility shall be eligible for an equity incentive payment rate as in items A to D. This computation is separate from the determination of the nursing facility's rental rate. An equity incentive payment rate as computed under this subdivision is limited to one in a 12-month period.

A. An eligible nursing facility shall receive an equity incentive payment rate equal to the allowable historical cost of the capital asset acquired, minus the allowable debt directly identified to that capital asset, multiplied by the equity incentive factor as described in items B

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Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 106

and C and divided by the nursing facility's occupancy factor under Section 15.090, items C or D. This amount shall be added to the nursing facility's total payment rate and shall be effective the same day as the incremental increase in item D or Section 15.1374. The allowable historical cost of the capital assets and the allowable debt shall be determined as provided in this plan.

B. The equity incentive factor shall be determined under subitems (1) to (4):

(1) divide the initial allowable debt in item A by the initial historical cost of the capital asset additions referred to in item A, then cube the quotient,

(2) subtract the amount calculated in subitem (1) from the number one,

(3) determine the difference between the rental factor and the lesser of two percentage points above the posted yield for standard conventional fixed rate mortgages of the Federal Home Loan Mortgage Corporation as published in the Wall Street Journal and in effect on the first day of the month the debt or cost is incurred, or 16 percent,

(4) multiply the amount calculated in subitem (2) by the amount calculated in subitem (3).

C. The equity incentive payment rate shall be limited to the term of the allowable debt in item A, not greater than 20 years nor less than ten years. If no debt is incurred in acquiring the capital asset, the equity incentive payment rate shall be paid for ten years. The sale of a nursing facility under Section 15.1371 shall terminate application of the equity incentive payment rate effective on the date provided in Section 15.1371, item F, for the sale.

D. A nursing facility with an addition to or a renovation of its buildings, attached fixtures, or land improvements meeting the criteria in this section and not receiving the property-related payment rate adjustment in Section 15.1374, shall receive the incremental change in the nursing facility's rental rate as determined under this plan. The incremental change shall be added to the nursing facility's property-related payment rate. The effective date of this incremental change shall be the first day of the month following the month in which the addition or replacement is completed.

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Supersedes: 00-22 (99-10/99-04/98-22/97-20/97-11)

ATTACHMENT 4.19-D (NF)

Page 107

SECTION 15.1374 Special provisions for moratorium exceptions.

A. Notwithstanding Section 15.030 for rate periods beginning on October 1, 1992, and for rate years beginning after June 30, 1993, a nursing facility that has completed a renovation, replacement, or upgrading project approved under the moratorium exception process, or a nursing facility that has received a statutory exception after June 30, 1995, except for a 115 bed county owned nursing facility which has received a statutory exception in 1993, shall be reimbursed for costs directly identified to that project as provided in Section 15.1373 and this section.

B. Notwithstanding Section 15.050, item A, subitems (1) and (3), and Section 15.070, item D, allowable interest expense on debt shall include:

(1) interest expense on debt related to the cost of purchasing or replacing depreciable equipment, excluding vehicles, not to exceed six percent of the total historical cost of the project; and

(2) interest expense on debt related to financing or refinancing costs, including costs related to points, loan origination fees, financing charges, legal fees, and title searches; and issuance costs including bond discounts, bond counsel, underwriter's counsel, corporate counsel, printing, and financial forecasts. Allowable debt related to items in this clause shall not exceed seven percent of the total historical cost of the project. To the extent these costs are financed, the straight-line amortization of the costs in this clause is not an allowable cost; and

(3) interest on debt incurred for the establishment of a debt reserve fund, net of the interest earned on the debt reserve fund.

C. Debt incurred for costs under item B is not subject to Section 15.050, item A, subitems (5) or (6).

D. The incremental increase in a nursing facility's rental rate, resulting from the acquisition of allowable capital assets, and allowable debt and interest expense under this section shall be added to its property-related payment rate and shall be effective on the first day of the month following the month in which the moratorium project was completed.